

CONVERSION CO-OPERATIVES

Co-operative Development Program



maintaining and creating jobs is a critical concern for unions and workers (employed and unemployed). There has been increasing interest, therefore, in the potential of companies to convert into democratic business enterprises (co-operatives) to protect and generate employment.

CO-OPERATIVE CHARACTER

A co-operative is a formal, legally established association of individuals, usually of limited means, who have voluntarily joined together to achieve common economic ends through the formation of democratically owned and controlled business enterprises.

A co-operative has limited liability, perpetual succession, a common seal, and the power to enter into contracts, to institute and defend actions, suits and legal proceedings. In Victoria co-operatives are incorporated under the Co-operation Act 1981.

There are six fundamental principles of co-operation:

1. OPEN AND VOLUNTARY MEMBERSHIP

Membership of a co-operative should be voluntary and available without artificial restriction or any social, political and religious discrimination, to all persons who can make use of its services and are willing to accept the responsibilities.

2. DEMOCRATIC CONTROL

Co-operatives are democratic organisations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary co-operatives should enjoy rights of voting (one member, one vote) and participation in decisions affecting their co-operatives. In other than primary co-operatives the administration should be conducted on a democratic basis in a suitable form.

3. LIMITED INTEREST ON SHARES

Share capital being service capital should only receive a strictly limited rate of interest, if any.

4. RETURN OF SURPLUS TO MEMBERS

Surplus or savings, if any, arising out of the operations of a co-operative belong to the members of that co-operative and should be distributed in such manner as would avoid one member gaining at the expense of others.

This may be done by decision of the members as follows:

- (a) by provision for development of the business of the co-operative;
- (b) by provision of common services; or
- (c) by distribution among the members in proportion to transactions with the co-operative.

5. CO-OPERATIVE EDUCATION

All co-operatives should make provision for the education of their members, officers and employees and of the general public in the principles and techniques of co-operation; both economic and democratic.

6. CO-OPERATION AMONG CO-OPERATIVES

All co-operative organisations, in order to best serve the interest of their communities, should actively co-operate in every practical way with other co-operatives at local, national and international levels.

Consistent with these principles, co-operatives have the following distinguishing characteristics—constant value and one class of shares, a limited interest on shares, a 20% limit or less on the number of shares held by any one shareholder, one vote per member irrespective of the number of shares held, individual membership and shares cannot be publicly traded.

A co-operative confers personal rights on members because shares are allocated on the basis of membership (one vote per member) and cannot be traded and sold. In contrast, a company confers property rights because shares can be traded and the number of votes depends on the number of shares.

CONVERSION CO-OPERATIVES DEFINED

A conversion co-operative is a company which converts into a co-operative. The members of a conversion co-operative are usually the workers in the co-operative. Membership of the co-operative is open to all workers. New workers are usually subject to a probationary period before being admitted as members.

A high proportion of the members of a co-operative have to be committed to long term economic success of the co-operative and this commitment must be based on member control over policy decisions. In a conversion co-operative the co-operative's success critically depends on its workforce and unless the workers are the members and control the co-operative then this commitment could diminish.

The Ministry of Employment and Training has a Co-operative Development Program which provides technical and financial assistance for co-operatives—including conversion co-operatives.

The objectives for the program are to provide technical and/or financial assistance for proposed, new or established co-operative business enterprises which:

- 1 demonstrate actual and/or potential economic viability within a reasonable time period
- 2 apply co-operative principles in practice consistent with 1.
- 3 demonstrate a commitment to the democratisation of workplaces consistent with 1.
- 4 create and/or maintain jobs in supported co-operatives consistent with 1.

CONVERSION CIRCUMSTANCES

There could be a number of relevant contributing factors which lead to the conversion of a company into a co-operative, e.g.

- An owner who is reaching retirement without a successor.

- A large company wishing to rationalise and divest activities.
- Owner(s) and/or workers wishing to avoid takeover and asset stripping.
- The death of the owner.
- A record of inadequate management.
- A record of inadequate investment.

It is important to understand the basis and nature of these factors. Converting a company into a co-operative is not justified to save jobs and prevent an otherwise economically unviable company from closing. Co-operatives sponsored for these reasons and without a co-operative commitment have a dubious future.

CONVERSION VIABILITY

There are eight broad viability characteristics and it is important, therefore, to determine how many of these are present in any proposed conversion co-operative: timing; workforce; decision-making; unions; market and product/service; capital needs; assets and company records.

Timing: There must be enough time to assess viability and if these characteristics are present, proceed with an adequate feasibility study. If it is not possible to make an adequate assessment in time, then, conversion should not be supported.

Workforce: A high proportion of the workforce must support the establishment and development of a co-operative. Do the workers supporting conversion have the necessary technical and business skills and/or a realistic proposal for obtaining and developing these skills? Will the workers remain with the co-operative?

Unions: Whether or not the workforce is unionised the appropriate unions should be consulted about the proposed conversion. Is the workforce unionised? Do the appropriate unions support conversion?

Product/service market: Is there a market for the product and/or service? Will the customers remain with the co-operative? Is it necessary to establish the existing and future market and the potential to develop

new products/services and markets?

Decision-making: Will the enterprise be effectively and efficiently managed? How will the management function be met by the co-operative? Who will make what decisions and how? How will decision-making in the co-operative be different and democratic?

Capital needs: How much money is likely to be required for the enterprise? What will be the internal and external sources of this capital? How capital intensive (\$ per job) is the proposed co-operative likely to be?

Assets: Are the assets (plant, equipment, stock, patents, etc.) for sale? Are the assets state-of-the-art and suitable for the new enterprise?

Records: Owner(s) assistance with the conversion co-operative is important because this would provide access to all past and current records.

FURTHER INFORMATION:

For further information you can contact:

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